

## Message Text

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17

ACTION TRSE-00

INFO OCT-01 EA-07 NEA-10 ISO-00 AID-05 CIAE-00 COME-00

EB-07 FRB-03 INR-07 NSAE-00 USIA-06 XMB-02 OPIC-03

SP-02 CIEP-01 LAB-04 SIL-01 OMB-01 NSC-05 SS-15

STR-04 CEA-01 L-03 H-02 PA-01 PRS-01 IO-10 /102 W

----- 080586

R 171110Z DEC 75

FM AMEMBASSY ISLAMABAD

TO SECSTATE WASHDC PRIORITY 3293

INFO AMCONSUL KARACHI

AMEMBASSY MANILA

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MANILA FOR USADB

FOR NAC AGENCIES

E.O. 11652: N/A

TAGS: EFIN, PK

SUBJECT: PROPOSED ADB LOAN AND TECHNICAL ASSISTANCE  
GRANT FOR INDUSTRIAL DEVELOPMENT BANK OF PAKISTAN  
PROJECT

REF: MANILA 17438

1. EMBASSY SUPPORTS PROPOSED ADB LOAN AND GRANT TO  
IDBP. IDBP IS THE ONE GOVERNMENT INSTITUTION WHICH  
EXTENDS MEDIUM AND LONG-TERM CREDIT INCLUDING FOREIGN  
EXCHANGE FINANCING TO MEDIUM AND SMALL INDUSTRIES.

2. PRIVATE ENTREPRENEURS HAVE SINCE THE ADVENT OF  
THE PRESENT GOVERNMENT BEEN HESITANT ABOUT INVESTMENTS  
IN LARGE-SCALE ENTERPRISES. PARTLY AS A RESULT OF THIS  
ATTITUDE, SMALL SCALE ENTERPRISES HAVE IN RECENT  
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YEARS BEEN THE MOST DYNAMIC PART OF PRIVATE

INDUSTRY IN PAKISTAN. THE IDBP THEREFORE PROVIDES NEEDED CREDIT TO ENTERPRISES WHICH CAN USE IT EFFECTIVELY.

3. THE LOAN DOCUMENTS INDICATE THAT IDBP AND THE GOP HAVE AGREED ON MEASURES WHICH SHOULD WIND UP THE DIFFICULTIES IDBP FACES ARISING OUT OF THE 1971 WAR. THE MEASURES PROPOSED SEEM SOUND TO US.

4. WE ALSO VERY MUCH APPROVE THE IDBP'S PLAN OF INCREASING THE PENALTY RATE ON OVERDUE REPAYMENTS. WE HAVE HEARD FROM PRIVATE BUSINESSMEN THAT A CONTRIBUTING REASON FOR THE ARREARAGE HAS BEEN THAT THE COST OF NEW LOANS IN PAKISTAN (ABOUT 13 PERCENT) WAS MUCH HIGHER THAN IDBP INTEREST RATES PLUS PENALTIES. HENCE THERE WAS A TEMPTATION BY INDUSTRIALISTS TO FOREGO THEIR IDBP REPAYMENTS RATHER THAN BORROW NEW MONEY.

5. THE LOAN INCLUDES A PROVISION WHICH PRECLUDES NEW LOANS TO TEXTILE SPINNING ESTABLISHMENTS UNTIL A STUDY OF THE FINANCING NEEDS OF THIS SECTOR HAS BEEN COMPLETED. INDUSTRY IN PAKISTAN IS VERY HEAVILY CONCENTRATED IN TEXTILES. THE RECENT INTERNATIONAL RECESSION HAS DEMONSTRATED THE DANGERS INHERENT IN THIS CONCENTRATION: BOTH PAKISTAN'S EXPORTS AND ITS INDUSTRIAL PRODUCTION HAVE STAGNATED AS INTERNATIONAL DEMAND FOR YARN AND TEXTILES HAS FALLEN OFF. THE STUDY REFERRED TO IN THE LOAN SHOULD CONTRIBUTE TO A RATIONALIZATION OF NEW FINANCING IN THE TEXTILE SECTOR.

6. WE WERE PLEASED TO NOTE THE TECHNICAL ASSISTANCE GRANT COMPONENT OF THIS PROJECT. ECONOMIC TALENT, PARTICULARLY IN THE KEY AREA OF PROJECT APPRAISAL, IS THIN IN PAKISTAN, AND PAKISTAN URGENTLY NEEDS TO REVERSE THE DECLINE IN PROFESSIONAL STANDARDS WHICH HAS TAKEN PLACE OVER THE PAST FEW YEARS. THE TRAINING ORIENTED GRANT SHOULD THUS CONTRIBUTE NOT ONLY TO STRENGTHENING IDBP BUT ALSO TO BUILDING UP A SKILL THE COUNTRY NEEDS TO INCREASE.

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7. WE REALIZE THAT ADB MUST APPORTION ITS SCARCE SPECIAL FUNDS RESOURCES AMONG MANY BORROWERS, AND THAT THE QUASI-COMMERCIAL NATURE OF IDBP MAKES AN ORDINARY CAPITAL LOAN APPROPRIATE FOR THIS PROJECT. IN GENERAL, HOWEVER, WE BELIEVE THAT PAKISTAN'S VERY TIGHT BALANCE OF PAYMENTS SITUATION MAKES CONCESSIONAL TERMS DESIRABLE.

7. THIS REPORT HAS BEEN PREPARED WITH THE HELP OF  
CONGEN KARACHI.  
BYROADE

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## Message Attributes

**Automatic Decaptioning:** X  
**Capture Date:** 01 JAN 1994  
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**Copy:** SINGLE  
**Draft Date:** 17 DEC 1975  
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**Disposition Authority:** RowellE0  
**Disposition Case Number:** n/a  
**Disposition Comment:** 25 YEAR REVIEW  
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**Subject:** PROPOSED ADB LOAN AND TECHNICAL ASSISTANCE GRANT FOR INDUSTRIAL DEVELOPMENT BANK OF PAKISTAN  
**TAGS:** EFIN, PK, ADB  
**To:** STATE  
**Type:** TE  
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